

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

In the Matter of the Application of)

VERIZON HAWAII INC. )

DOCKET NO. 03-0067

For Approval of Changes to its )  
Tariff to Introduce Local Package )  
Basic and to Allow Local Package )  
Basic Customers to be Eligible for )  
the Verizon Variations Internet )  
Access and Wireless Service )  
Discounts. )  
\_\_\_\_\_ )

DECISION AND ORDER NO. 20369

DIV. OF CONSUMER ADVOCACY  
DEPT. OF COMMERCE AND  
CONSUMER AFFAIRS  
STATE OF HAWAII

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Filed August 8, 2002<sup>3</sup>  
At 12:00 o'clock P.M.

Karen Higashi  
Chief Clerk of the Commission

ATTEST: A True Copy  
KAREN HIGASHI  
Chief Clerk, Public Utilities  
Commission, State of Hawaii.

K. Higashi

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DECISION AND ORDER

I.

By application filed on March 19, 2003, VERIZON HAWAII INC. ("Verizon Hawaii") seeks commission approval to amend P.U.C. Tariff No. 3, Section 24 to introduce a new package of telecommunications services to residential customers called Local Package Basic ("LPB"). Verizon Hawaii also requests commission approval to allow LPB customers to be eligible for the existing Verizon Variations Internet access and wireless service bundles introduced in Docket Nos. 02-0183 and 02-0390. In support of its application, Verizon Hawaii filed a cost support of the LPB, which included data Verizon Hawaii gathered in its monitoring of Inter-island Toll usage by

subscribers of a package called Local and Toll Package.<sup>1</sup> On June 16, 2003, Verizon Hawaii filed an updated forecast of the monthly Inter-island Toll minutes and a revised cost support for LPB that included an estimate of the long run incremental cost of touch call service. Verizon Hawaii makes its requests in accordance with Hawaii Revised Statutes ("HRS") § 269-16 and Hawaii Administrative Rules ("HAR") §§ 6-61-111 and 6-80-35(e).<sup>2</sup>

Verizon Hawaii served copies of the application on the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"). On June 17, 2003, the Consumer Advocate issued information requests upon Verizon Hawaii, which were based upon the information provided by Verizon Hawaii on March 19, 2003. Verizon Hawaii responded to the information requests on June 25, 2003. On July 15, 2003, the Consumer Advocate submitted its statement of position ("Statement of Position") stating that it does not object to the

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<sup>1</sup>By Order No. 19295, filed on April 10, 2002, in Docket No. 01-0440, the commission ordered Verizon Hawaii to monitor the Inter-island Toll usage of subscribers of the Local and Toll Package. The cost support filed with the instant application provided updated results through February 2003.

<sup>2</sup>Pursuant to HAR 6-80-35(e), an application for approval to offer a noncompetitive telecommunications service jointly with any fully or partially competitive service or other service not within the jurisdiction of the commission must be filed with the commission not less than 30 days before the joint services are marketed, sold, or advertised. Verizon Hawaii, in its application, requests that the commission approve its application by April 21, 2003. However, by letter dated July 23, 2003, Verizon Hawaii requests the expeditious approval of LPB and an effective date three weeks after the approval of the package.

commission's approval of the application, subject to certain qualifications.

By letter dated July 23, 2003, Verizon Hawaii responded to the Consumer Advocate's recommendations contained in its Statement of Position.

## II.

### A.

Verizon Hawaii seeks commission approval to offer residential customers a new package of services at a flat rate of \$44.95 per month. For this monthly charge, customers will be provided: (1) Residential Line ("R1"); (2) Touch Call; (3) Up to four Custom Calling features<sup>3</sup>; (4) Optional residential Home Voice Mail; and (5) unlimited Inter-island Toll telecommunications services. Commission approval is required for the offering of LPB, since Verizon Hawaii is proposing to bundle telecommunications services that are fully competitive, noncompetitive, and non-regulated services. In particular, R1, Touch Call, and Custom Call features are classified as noncompetitive services, Inter-island Toll service is classified as fully competitive; and Home Voice Mail is classified as a non-regulated service.

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<sup>3</sup>The customer may choose from the following available features: (1) Caller ID Name and Number; (2) Three Way Calling; (3) Call Waiting/Cancel Call Waiting; and (4) Speed Calling 8.

B.

Pursuant to HAR § 6-80-35(e), a telecommunications carrier may not offer a noncompetitive telecommunications service jointly with any fully or partially competitive service or other service not within the jurisdiction of the commission, except upon the commission's express approval. The commission's approval is subject to a satisfactory showing by the telecommunications carrier seeking to offer such joint services that the costs of the fully or partially competitive service or non-jurisdictional service are not subsidized by the noncompetitive service. HAR § 6-80-35(b) explains that, cross-subsidization is deemed to have occurred if: (1) any fully competitive or partially competitive service is priced below the total service long run incremental cost of providing the service; (2) fully competitive services, taken as a whole, fail to cover their direct and allocated joint and common costs; or (3) if fully competitive and partially competitive services, taken as a whole, fail to cover the direct and allocated joint and common costs.

Verizon Hawaii contends that LPB will benefit residential customers by providing an optional package of services at a discounted price without a cross-subsidization of services. As a safeguard, Verizon Hawaii advises that it will utilize the same method to allocate revenues between services

for LPB that the commission approved when it allowed Verizon Hawaii to offer its Local and Toll Package in Docket No. 01-0440. Verizon Hawaii represents that the utilization of this method will result in the recordation of each service in the appropriate revenue accounts and will exceed the underlying costs of each service.

Verizon Hawaii further contends that the noncompetitive services in LPB will not subsidize the costs of the Verizon Variations Internet access and wireless services in this offering because each Verizon entity will account for the revenues and costs of its services on its own books, as it would under normal circumstances.<sup>4</sup> In particular, Verizon Hawaii advises that it will record all of the revenues from LPB in the appropriate Verizon Hawaii revenue accounts, and none of the revenues of Verizon Hawaii's services will be recorded on the books of its affiliates. Moreover, Verizon Hawaii explains because the discounts will apply to VOL DSL, Dialup Internet services, and wireless services only, VOL and Verizon Wireless will absorb their respective reduction in revenues. Finally, Verizon Hawaii asserts that allowing LPB customers to

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<sup>4</sup>Verizon Internet Services Inc. and GTE.Net LLC dba Verizon Internet Solutions (collectively referred to as "VOL") provide Verizon Residential digital subscriber line ("DSL") Internet Services for which Verizon Hawaii proposes that the LPB customers will be eligible. In addition, Verizon Wireless provides the wireless services to be offered to LPB customers.

be eligible for these discounts will not negatively impact Verizon Hawaii's regulated revenues or its ratepayers.

C.

In its Statement of Position, the Consumer Advocate states that similar to the review conducted in Docket Nos. 01-0440 and 02-0415, it attempted to determine whether the \$44.95 monthly rate for LPB resulted in any subsidization of the competitive and non-regulated services by the non-competitive services. To accomplish this task, it scrutinized, among other things, (1) the reasonableness of the underlying assumptions for the cost of each service offering, and (2) the derivation of Verizon Hawaii's rate for each service. After its review, the Consumer Advocate states that it is concerned with Verizon Hawaii's cost estimates for LPB's Touch Call, which it believes to be understated, since the cost estimate for this service in the instant docket is not equal to the cost estimate for this service in Docket Nos. 01-0440 and 02-0415. Accordingly, the Consumer Advocate, for the same reasons articulated in Docket No. 02-0415, continues to recommend that the cost of touch tone service be

set at an amount equal to that set in Docket Nos. 01-0440 and 02-0415.<sup>5</sup>

In addition to setting a new cost for the Touch Call service, the Consumer Advocate also recommends that the commission monitor the aggregate Inter-island Toll minutes of use ("MOU") for LPB and the rate at which each of the four types of Home Voice Mail ("HVM") services are chosen by LPB customers. Specifically, the Consumer Advocate recommends that the commission require Verizon Hawaii to file a monthly report showing (1) the total MOU for all LPB customers; (2) the number of LPB customers; and (3) the average monthly MOU for each LPB customer. With respect to the HVM offerings, the Consumer Advocate recommends that the commission require Verizon Hawaii to file a monthly report detailing the actual rate at which each of the four HVM service offerings are chosen by LPB customers.

The Consumer Advocate states that it does not object to Verizon Hawaii's request to allow LPB customers to be eligible for Verizon Variations Internet access and wireless service discounts. Further, the Consumer Advocate states that based upon Verizon Hawaii's assertion that each Verizon entity

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<sup>5</sup>In Decision and Order No. 20195, filed on May 27, 2003, in Docket No. 02-0415 ("Decision and Order No. 20195"), the commission noted that the Consumer Advocate was concerned that cross-subsidization of the Touch Call service may occur if Verizon Hawaii is allowed to utilize a lower rate than that used in Docket No. 01-0440.



will account for the revenues and expenses on its own books, it believes that the proposed offering will be in the best interest of consumers, since the consumers will have additional service offerings from which to choose.

D.

In its July 23, 2003 letter response to the Consumer Advocate's Statement of Position, Verizon Hawaii states, among other things (1) that although it has "conceptual concerns with the [Consumer Advocate's] position on the touch call cost" it did "not object at this time to allocating the revenues on the basis of using the touch call rate instead of the touch call cost and would allocate the package revenues according to the amounts shown in Section II.6. on page 12" of the Consumer Advocate's Statement of Position, and (2) it would be willing to provide the monthly data recommended by the Consumer Advocate in its Statement of Position in a report to be filed one year after implementation of the package. In addition, by its letter response, Verizon Hawaii "urges the [c]ommission to expeditiously approve [LPB] and to allow the LPB tariff to become effective three weeks from the date of approval."

### III.

#### A.

With respect to the cost of the Touch Call service component of LPB, it appears reasonable at this time to require Verizon Hawaii again to utilize a consistent amount for packages that contain a similar cocktail of services. Moreover, we believe such an adjustment to the cost associated with this component would help to allay any concerns of cross-subsidization by LPB's component offerings. Accordingly, the commission, upon review, finds that Verizon Hawaii's recordation of its cost of the Touch Call service should equal the same amount as that in Docket Nos. 01-0440 and 02-0415.

In Decision and Order No. 20195, the commission expressed concern that the customer use of the unlimited Inter-island Toll feature of the package approved in that docket, called Local Package Plus, may exceed Verizon Hawaii's proxy MOU level, which could result in the provision of the service at a price lower than its incremental cost. The cost studies provided with the instant application utilize the actual Local and Toll Package (approved in Docket No. 01-0440) Inter-island MOU for one year. While the greater amount of information provided in the instant docket provides a greater insight into the MOU trend that may occur in LPB, it does not eliminate all doubt that there is a possibility that the cost of

Inter-island Toll may ultimately exceed the rate for this service. Rather, the trend demonstrated by the information provided suggests an increasing trend in Inter-island MOU. Accordingly, we find good cause to monitor, on a monthly basis, the aggregate Inter-island Toll MOU for LPB. Thus, we agree with the Consumer Advocate that Verizon Hawaii should report monthly to the commission and the Consumer Advocate (1) the total MOU for all LPB customers; (2) the number of LPB customers; and (3) the average monthly MOU for each LPB customer.

The commission similarly finds it reasonable to require Verizon Hawaii to report, on a monthly basis, the actual rate at which each of the four types of HVM services are chosen by LPB customers, since it is likely that the HVM subscribers will choose the most expensive HVM service, especially when the choice for a more expensive option involves no extra cost to the customer. As suggested by the Consumer Advocate, the report will allow the commission and the Consumer Advocate to monitor which of the four HVM services the LPB customers choose and assess the cost impacts resulting from their choices.

Additionally, upon review of the record and the representations of Verizon Hawaii, the commission will allow LPB customers to be eligible for Verizon Variations Internet access and wireless service discounts.

Based on the above, we conclude that Verizon Hawaii has satisfied the requirements of HAR § 6-80-35(e), at this time. Thus, the commission will allow Verizon Hawaii to offer LPB, effective three weeks from the date of this decision and order, provided that Verizon Hawaii adheres to the following changes and conditions:

1. Verizon Hawaii must closely monitor Inter-island Toll usage by LPB customers to determine whether its projections are reasonable. If the actual, aggregate Inter-island Toll usage causes Verizon Hawaii to provide LPB below cost, Verizon Hawaii shall amend its tariff to incorporate appropriate modifications to ensure that the offering complies with all of the commission's pricing rules including, but not limited to, HAR § 6-80-35(e). The commission reserves for itself the right to review the reasonableness of the Inter-island Toll usage projections and Verizon Hawaii's compliance with, among other things, the commission's pricing rules.

Until otherwise ordered, Verizon Hawaii shall file, on a monthly basis, a report on aggregate Inter-island Toll MOU for LPB, with two copies

served on the Consumer Advocate. Each monthly report shall be filed within 15 days after the end of each month. For each month the report must detail: (a) the total MOU for all LPB customers; (b) the number of LPB customers; and (c) the average monthly MOU for each LPB customer.

2. Until otherwise ordered, Verizon Hawaii shall file, on a monthly basis, a report on the actual rate at which each of the four types of HVM services are chosen by LPB customers.

3. Verizon Hawaii must incorporate the Consumer Advocate's recommendation on the Touch Call cost component.

4. As required in Docket Nos. 01-0440 and 02-0415, Verizon Hawaii shall allocate any profits on a pro rata basis across the bundled services.

5. Verizon Hawaii shall continue to record revenues, expense, and other matters for each service separately to help mitigate the possibility of cross-subsidization.

#### IV.

##### THE COMMISSION ORDERS:

1. Verizon Hawaii's LPB offering is approved, effective three weeks from the date of this decision and order, provided that Verizon Hawaii complies with all of the changes and conditions set forth in section III of this decision and order.

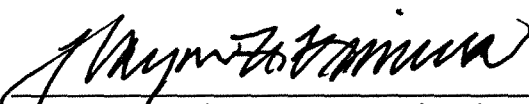
2. Verizon Hawaii's request to allow its LPB customers to be eligible for Verizon Variations Internet access and wireless discounts is approved.

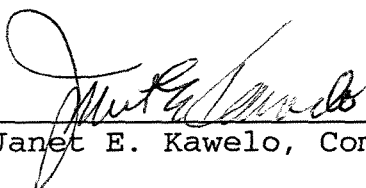
3. Within 10 days of the date of this decision and order, Verizon Hawaii shall file initial tariff sheets consistent with the commission's requirements in this decision and order and reflecting the appropriate issue and effective dates.

DONE at Honolulu, Hawaii this 8th day of August,  
2003.

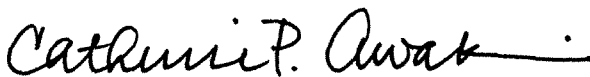
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Carlito P. Caliboso, Chairman

By   
Wayne H. Kimura, Commissioner

By   
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

  
Catherine P. Awakuni  
Commission Counsel

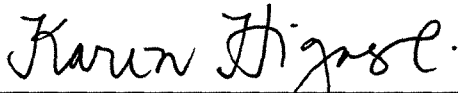
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20369 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
DIVISION OF CONSUMER ADVOCACY  
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JOEL K. MATSUNAGA  
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Karen Higashi

DATED: August 8, 2003